

**ATTACHMENT A**

**OPERATING ORDER**

Between

STATE OF CALIFORNIA  
DEPARTMENT OF WATER RESOURCES

And

SOUTHERN CALIFORNIA EDISON COMPANY

THIS ORDER HAS BEEN FILED WITH AND APPROVED BY THE CALIFORNIA PUBLIC UTILITIES COMMISSION (“COMMISSION”) FOR USE BETWEEN THE STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES (“DWR”) AND SOUTHERN CALIFORNIA EDISON COMPANY (“UTILITY”).

Date of Commission Approval: December 19, 2002

Effective Date: December 19, 2002

## **ATTACHMENT A OPERATING ORDER**

This **OPERATING ORDER** (this “Order”) is between the State of California Department of Water Resources (“DWR”), acting solely under the authority and powers granted by AB1X, codified as Sections 80000 through 80270 of the Water Code, and not under its powers and responsibilities with respect to the State Water Resources Development System, and Southern California Edison Company, a California corporation (“Utility”). DWR and Utility are sometimes collectively referred to herein as the “Parties” and individually referred to as a “Party.” Unless otherwise noted, all capitalized terms shall have the meanings set forth in Article I of this Order.

### **R E C I T A L S**

WHEREAS, under the Act, DWR has entered into a number of long-term power purchase agreements for the purpose of providing the net short requirements to the retail ratepayers of the State's electrical corporations, including Utility; and

WHEREAS, the Contract Allocation Order of the Commission provides that such long-term power purchase agreements are to be operationally allocated among the State's electrical corporations, including Utility; solely for the purpose of causing the State's electrical corporations to perform certain specified functions, on behalf of DWR, including dispatching, scheduling, billing and settlements functions, all as such functions relate to those certain power purchase agreements allocated to each electrical corporation under the Contract Allocation Order; and

WHEREAS, DWR wishes to provide for the performance of such functions under the Allocated Contracts by Utility on behalf of DWR in accordance with such long-term power purchase agreements as provided in this Order; and

WHEREAS, consistent with the Contract Allocation Order, DWR will retain legal and financial obligations, together with any other functions not explicitly provided in this Order to be performed by Utility, with respect to each of the Allocated Contracts and it is the intent of DWR and the Utility that the provisions of this Order will not constitute an “assignment” of the Allocated Contracts as such term is used and as provided in each of the Allocated Contracts; and

WHEREAS, consistent with the Interim Contract Order of the Commission, DWR expects to enter into certain Interim Contracts prior to January 1, 2003 and DWR wishes to provide for the administration of such Interim Contracts by Utility.

**ATTACHMENT A  
OPERATING ORDER**

**NOW, THEREFORE,** DWR agrees and Utility is ordered to do as follows:

**ARTICLE I  
DEFINITIONS**

Section 1.01. Definitions. The following terms shall have the respective meanings in this Order:

The following terms, when used herein (and in the attachments hereto) with initial capitalization, shall have the meaning specified in this Section 1.01. Certain additional terms are defined in the attachments hereto. The singular shall include the plural and the masculine shall include the feminine and neuter, and *vice versa*. “Includes” or “including” shall mean “including without limitation.” References to a section or attachment shall mean a section or attachment of this Order, as the case may be, unless the context requires otherwise, and reference to a given agreement or instrument shall be a reference to that agreement or instrument as modified, amended, supplemented or restated through the date as of which such reference is made (except as otherwise specifically provided herein). Unless the context otherwise requires, references to Applicable Laws or Applicable Tariffs shall be deemed references to such laws or tariffs as they may be amended, replaced or restated from time to time. References to the time of day shall be deemed references to such time as measured by prevailing Pacific time.

“Act” means Chapter 4 of Statutes of 2001 (Assembly Bill 1 of the First 2001-02 Extraordinary Session) of the State of California, as amended.

“Allocated Contracts” means the long-term power purchase agreements operationally allocated to Utility under the Contract Allocation Order, without legal and financial assignment of such agreements to Utility, as provided in Schedule 1 attached hereto.

“Allocated Power” means all power and energy, including the use of such power or energy as ancillary services, delivered or to be delivered under the Contracts.

“Applicable Commission Orders” means such rules, regulations, decisions, opinions or orders as the Commission may lawfully issue or promulgate from time to time, which further define the rights and obligations of the Parties under this Order.

“Applicable Law” means the Act, Applicable Commission Orders and any other applicable statute, constitutional provision, rule, regulation, ordinance, order, decision or code of a Governmental Authority.

**ATTACHMENT A  
OPERATING ORDER**

“Applicable Tariffs” means Utility’s tariffs, including all rules, rates, schedules and preliminary statements, governing electric energy service to Utility’s customers in its service territory, as filed with and approved by the Commission and, if applicable, the Federal Energy Regulatory Commission.

“Assign(s)” shall have the meaning set forth in Section 14.01.

“Bonds” shall have the meaning set forth in the Rate Agreement.

“Bond Charges” shall have the meaning set forth in the Rate Agreement.

“Business Day” means the regular Monday through Friday weekdays which are customary working days, excluding holidays, as established by Applicable Tariffs.

“Commission” means the California Public Utilities Commission.

“Confidential Information” shall have the meaning set forth in Section 11.01(c).

“Contracts” means the Allocated Contracts and the Interim Contracts.

“Contract Allocation Order” means Decision 02-09-053 of the Commission, issued on September 19, 2002, as such Decision may be amended or supplemented from time to time by the Commission.

“DWR Power” shall have the same meaning set forth in the Servicing Arrangement with such amendments to incorporate the Settlement Principles for Remittances and Surplus Revenues as provided in Exhibit C of this Order.

“DWR Revenues” means those amounts required to be remitted to DWR by Utility in accordance with this Order and as further provided in the Servicing Arrangement.

“Effective Date” means the effective date in accordance with Section 14.13, as such date is set forth on the cover page hereof.

“Fund” means the Department of Water Resources Electric Power Fund established by Section 80200 of the California Water Code.

**ATTACHMENT A  
OPERATING ORDER**

“Good Utility Practice” means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice does not require the optimum practice, method, or act to the exclusion of all others, but rather is intended to include acceptable practices, methods, or acts generally accepted in the Western Electric Coordinating Council region.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to a government, including the Commission.

“Governmental Program” means any program or directive established by Applicable Law which directly or indirectly affects the rights or obligations of the Parties under this Order and which obligates or authorizes DWR to make payments or give credits to customers or other third parties under such programs or directives.

“Interim Contract Order” means Decision 02-08-071 of the Commission, issued on August 22, 2002, as such Decision may be amended or supplemented from time to time by the Commission.

“Interim Contracts” mean the power purchase or exchange arrangements between DWR and various Suppliers entered into by DWR at the request of Utility and consistent with the Interim Contract Order, as listed in Schedule 2 attached hereto.

“ISO” means the California Independent System Operator Corporation.

“Order” means Decision 02-12-069 of the Commission, issued on December 19, 2002 as such decision may be amended or supplemented from time to time by the Commission.

“Power Charges” shall have the meaning set forth in the Rate Agreement.

“Priority Long Term Power Contract” shall have the meaning set forth in the Rate Agreement.

“Rate Agreement” means the Rate Agreement between DWR and the Commission adopted by the Commission on February 21, 2001 in Decision 02-02-051.

“Remittance” means a payment by Utility to DWR or its Assign(s) in accordance with the Servicing Arrangement.

## **ATTACHMENT A OPERATING ORDER**

“Servicing Arrangement” means the [Amended and Restated] Servicing [Agreement, dated December 19, 2002, between DWR and Utility, as amended] / [Order as specified in the Commission Decision 02-05-048 dated May 16, 2002.]

“Supplier” means those certain third parties who are supplying power pursuant to the Contracts.

“Term” means term provided in Section 2.05 hereof.

“URG” means utility-retained generation, including without limitation Utility’s portfolio of generation resources and power purchase agreements prior to or after the Effective Date by Utility.

Section 1.02. Undefined Terms. Capitalized terms not otherwise defined in Section 1.01 herein shall have the meanings set forth in the Act or the Servicing Arrangement.

### **ARTICLE II OPERATIONAL ALLOCATION OF POWER PURCHASE AGREEMENTS; MANAGEMENT OF THE CONTRACTS; ALLOCATED POWER; TERM**

Section 2.01. Operational Allocation and Management of Power Purchase Agreements. On behalf of DWR Utility will perform certain day-to-day scheduling and dispatch functions, making surplus energy sales, billing and settlement and certain other tasks with respect to the Allocated Contracts, as more fully set forth in this Order. Utility shall also perform the same functions with respect to each Interim Contract.

As further provided in Contract Administration and Performance Test Monitoring Protocols set forth in Exhibit E, DWR will continue to monitor and audit the Supplier performance under the Contracts. Upon development of a mutually agreeable plan, Utility will monitor the performance of Suppliers, as further provided in Exhibit E, subject, however, to DWR's right but not the obligation to audit and monitor all functions contemplated to be performed by Utility, all as further provided in this Order.

Section 2.02. Standard of Contract Management. Utility agrees to perform the functions specified in this Order relating to the Allocated Contracts and Interim Contracts in a reasonable manner, exercising Good Utility Practice. DWR may review or challenge whether such performance complies with this Section 2.02 at any time and take any action with respect thereto as it may deem necessary; provided, however, that Utility shall not be deemed to be the violation of this Section 2.02 by DWR unless DWR elected to challenge an action or in action by Utility as not being in compliance with this Section 2.02.

## **ATTACHMENT A OPERATING ORDER**

Section 2.03. Good Faith. Each Party hereby covenants that it shall perform its actions, obligations and duties in connection with this Order in good faith.

Section 2.04. DWR Power. During the term of this Order, the electric power and energy, including but not limited to capacity, and output, or any of them from the Contracts delivered to retail end-use customers in Utility's service area shall constitute DWR Power for all purposes of the Servicing Arrangement. Utility further agrees to sell and transmit or provide transmission of surplus Allocated Power to third-party purchasers in accordance with the terms of this Order.

Section 2.05. Term. The Term of this Order shall commence on the Effective Date and shall terminate on the termination of the Servicing Arrangement. In addition, this Order will terminate as to each Contract that terminates in accordance with its terms. DWR agrees to notify Utility as to the termination of each Contract as provided in Section 5.01(e) hereof.

### **ARTICLE III LIMITED AGENCY / NO ASSIGNMENT**

Section 3.01. Limited Agency. Utility is hereby appointed as DWR's agent for the limited purposes set forth in this Order. Utility shall not be deemed to be acting, and shall not hold itself out, as agent for DWR for any purpose other than those described in this Order. Utility's duties and obligations shall be limited to those duties and obligations that are specified in this Order.

Section 3.02. No Assignment. DWR shall remain legally and financially responsible for performance under each of the Contracts and shall retain liability to the counterparty for any failure of Utility to perform the functions referred to in this Order on behalf of DWR under such Contracts in accordance with the terms thereof. It is the intent of DWR and Utility that the provisions of this Order shall not constitute an "assignment" of the Allocated Contracts as such term is used, and as provided, therein.

**ATTACHMENT A  
OPERATING ORDER**

**ARTICLE IV  
LIMITED DUTIES OF UTILITY**

Section 4.01. Limited Duties of Utility as to the Contracts. During the Term of this Order, Utility shall:

- (a) Perform the day-to-day scheduling and dispatch functions, including day-ahead, hour-ahead and real time trading, scheduling transactions with all involved parties, making surplus energy sales and obtaining relevant information for these functions such as transmission availability and others, with respect to the Allocated Contracts set forth in Schedule 1 hereto, all as more specifically provided in the Operating Protocols attached hereto as Exhibit A;
- (b) Enter into transactions for the purchase (or sale, as the case may be) of gas, gas transmission services, gas storage services and financial hedges, and perform the operational and administrative responsibilities for such purchases under gas tolling provisions under the Allocated Contracts, including the review of fuel plans and consideration of alternative fuel supply, all as more specifically provided in the Fuel Management Protocols attached hereto as Exhibit B;
- (c) Remit DWR Revenues to DWR, consistent with the Settlement Principles for Remittances and Surplus Revenues attached hereto as Exhibit C and the Servicing Arrangement;
- (d) Assume financial responsibility for the ISO charges listed on Exhibit D attached hereto;
- (e) Upon development of a mutually agreeable plan, monitor the performance of Suppliers under the Allocated Contracts and undertake the administration of the Allocated Contracts, as more specifically provided in the Contract Administration and Performance Monitoring Protocols attached hereto as Exhibit E;
- (f) Provide to DWR the necessary information required by DWR as more specifically provided in the DWR Data Requirements From Utility attached hereto as Exhibit F to facilitate DWR's continued performance of financial obligations related to Allocated Contracts and to facilitate DWR's audit, monitoring and reporting requirements related to the Allocated Contracts;
- (g) At all times in performing its obligations under this Order (i) comply with the provisions of each of the Allocated Contracts, (ii) follow Good Utility Practice, (iii) comply with all Applicable Laws and Applicable Commission Orders, and (iv) comply with the applicable principles, guidelines, standards and requirements of FERC, NERC, WECC, a regional transmission operator and the ISO;
- (h) Appoint a primary and secondary contact person, as set forth in Schedule 3 hereto, to coordinate the responsibilities listed in this Section 4.01; and

**ATTACHMENT A  
OPERATING ORDER**

- (i) Prior to novation of the Interim Contracts by Utility in accordance with the terms of each such Interim Contract, comply with the provisions listed in paragraphs (a) through (h) of this Section 4.01, in each case substituting the defined term Interim Contract(s) for the term Allocated Contract(s).

Provided, however, in the event that DWR fails to provide or provides inaccurate information which results in Utility's non-compliance with its obligations under this Order, the resulting non-compliance by Utility shall not constitute an Event of Default under Section 7.01 hereof.

Section 4.02. Dispatch or Sale of Allocated Power. Subject to any existing or new ISO tariff provisions that may affect the dispatch of such Contracts, Allocated Power from all Contracts shall be dispatched or sold, as the case may be, by Utility pursuant to the Operating Protocols attached hereto as Exhibit A.

Section 4.03. DWR Revenues. DWR Revenues shall be accounted and remitted to DWR consistent with the principles provided in the Settlement Principles for Remittances and Surplus Revenues attached hereto as Exhibit C and the provisions of the Servicing Arrangement. Unless otherwise specifically provided in this Order, Utility will not be required at any time to advance or pay any of its own funds in the fulfillment of its responsibilities under this Order.

Section 4.04. Ownership of Allocated Power. Notwithstanding any other provision herein, and in accordance with the Act and Section 80110 of the California Water Code, DWR shall retain title to all Allocated Power, including DWR Power. In accordance with the Act and Section 80104 of the California Water Code, upon the delivery of Allocated Power to Utility's customers, those customers shall be deemed to have purchased that power from DWR, and payment for such sale shall be a direct obligation of such customer to DWR. In addition, DWR shall retain title to any surplus Allocated Power sold by Utility as provided in this Order.

**ATTACHMENT A  
OPERATING ORDER**

**ARTICLE V  
DUTIES OF DWR**

Section 5.01. Duties of DWR. Consistent with the Contract Allocation Order, DWR shall:

- (a) Remain legally and financially responsible under each of the Contracts and cooperate with Utility in the transition from DWR to Utility the performance of the functions provided in this Order;
- (b) Assume legal and financial responsibility, and approve Utility's entering into transactions as DWR's limited agent, for the purchase (or sale, as the case may be) of gas, gas transmission services, gas storage services and financial hedges, and timely consent to Utility's performance of the operational and administrative responsibilities for such purchases under gas tolling provisions under the Allocated Contracts , including the review of fuel plans and consideration of alternative fuel supply, all as more specifically provided in the Fuel Management Protocols attached hereto as Exhibit B;
- (c) Pay invoices to the Suppliers.
- (d) Until such time as a mutually agreed upon plan may be entered into with Utility and approved by the Commission, and no earlier than January 1, 2004, continue to monitor the performance of Suppliers and conduct certain contract administration duties under the Allocated Contracts, all as more specifically provided in the Contract Administration and Performance Monitoring Protocols attached hereto as Exhibit E
- (e) Upon the termination of any Contract, submit in writing to Utility appropriate Schedules and Attachments to Exhibit A amended to reflect the termination of any Contract. Such amended Schedules and Attachments shall become effective only upon the effective date of the termination of such Contract. Provided, however, rights or obligations of the Parties that arise or relate to Utility's performance of its duties under this Order in respect of any terminated Contract shall survive until the expiration of any such right or obligation.
- (f) Appoint a primary and secondary contact person, as set forth in Schedule 3 hereto, to coordinate the responsibilities listed in this Section 5.01.

**ATTACHMENT A  
OPERATING ORDER**

**ARTICLE VI  
[RESERVED]/SPECIAL CONTRACT TERMS**

Section 6.01. Special Contract Terms. In addition to the obligations set forth in this Order, Utility shall comply with the terms and provisions applicable to the Interim Contracts as set forth in Schedule 2 hereto.

**ARTICLE VII  
EVENTS OF DEFAULT**

Section 7.01. Events of Default. The following events shall constitute “Events of Default” under this Order:

- (a) any failure by a Party to pay any amount due and payable under this Order that continues unremedied for five (5) Business Days after the earlier of the day the defaulting Party receives written notice thereof from the non-defaulting Party; or
- (b) any failure by Utility to schedule and dispatch Contracts, consistent with the principles set forth in Exhibit A; or
- (c) any failure (except as provided in (a) or (b)) by a Party to duly observe or perform in any material respect any other term or condition of such Party set forth in this Order, which failure continues unremedied for a period of 15 calendar days after written notice of such failure has been given to such Party by the non-defaulting Party; or
- (d) any representation or warranty made by a Party shall prove to be false, misleading or incorrect in any material respect as of the date made; or
- (e) an Event of Default (as defined under the Servicing Arrangement) shall have occurred and is continuing under the Servicing Arrangement.

Section 7.02. Consequences of Utility Event of Default. Upon any Event of Default by Utility, DWR may, in addition to exercising any other remedies available under this Order or under Applicable Law, (i) apply to the Commission and, if necessary, any court of competent jurisdiction for sequestration and payment to DWR or its Assign(s) of DWR Revenues or for specific performance of the functions related to the Contracts to be performed by Utility on behalf of DWR as provided in this Order.

Section 7.03. Consequences of DWR Event of Default. Upon an Event of Default by DWR (other than an Event of Default under 7.01(a)), Utility shall request that the Commission terminate this Order in whole or in part, Section 2.05 notwithstanding.

Section 7.04. Remedies. Subject to Article XIII of this Order, upon any Event of Default, the non-defaulting Party may exercise any other legal or equitable right or remedy that may be available to it under applicable law or under this Order, including, but not limited to, termination of this Order.

## **ATTACHMENT A OPERATING ORDER**

Section 7.05. Remedies Cumulative. Except as otherwise provided in this Order, all rights of termination, cancellation, or other remedies in this Order are cumulative. Use of any remedy shall not preclude any other remedy available under this Order.

Section 7.06. Waivers. None of the provisions of this Order shall be considered waived by either Party unless the Party against whom such waiver is claimed gives such waiver in writing. The failure of either Party to insist in any one or more instances upon strict performance of any of the provisions of this Order or to take advantage of any of its rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect. Waiver by either Party of any default by the other Party shall not be deemed a waiver of any other default.

### **ARTICLE VIII PAYMENT OF FEES AND CHARGES**

Section 8.01. Utility Fees and Charges. As noted in the Contract Allocation Order, the details of the amount and recovery of administrative costs to Utility associated with the Contracts are expected to be considered in another Commission proceeding. As such, the Parties agree that the administrative costs to Utility will be recovered pursuant to such Commission proceeding. Utility shall enter the cost of such fees and charges in its Purchased Electric Commodity Account, or its successor or another account designated by the Commission on current basis, subject to subsequent Commission review.

### **ARTICLE IX REPRESENTATIONS AND WARRANTIES**

Section 9.01. Representations and Warranties.

(a) Each person executing this Order for the respective Parties expressly represents and warrants that he or she has authority to bind the Party on whose behalf he or she has executed this Order.

(b) Each Party represents and warrants that it has the full power and authority to execute and deliver this Order and to perform its terms, that execution, delivery and performance of this Order have been duly authorized by all necessary corporate or other action by such Party, and that this Order constitutes such Party's legal, valid and binding obligation, enforceable against such Party in accordance with its terms.

(c) DWR represents and warrants that all necessary and appropriate notices, inducements, undertakings, approvals, and consents have been obtained from each Supplier to the Contract allocated to Utility in order for Utility to undertake its duties set forth in this Order in a timely and appropriate fashion.

**ATTACHMENT A  
OPERATING ORDER**

**ARTICLE X  
LIMITATIONS ON LIABILITY**

Section 10.01. Consequential Damages. In no event will either Party be liable to the other Party for any indirect, special, exemplary, incidental, punitive, or consequential damages under any theory. Nothing in this Section 10.01 shall limit either Party's rights as provided in Article VII above.

Section 10.02. Limited Obligations of DWR and Utility. Any amounts payable by DWR under this Order shall be payable solely from moneys on deposit in the Department of Water Resources Electric Power Fund established pursuant to Section 80200 of the California Water Code (the "Fund").

Section 10.03. Sources of Payment; No Debt of State. DWR's obligation to make payments hereunder shall be limited solely to the Fund and shall be payable as an operating expense of the Fund solely from Power Charges subject and subordinate to each Priority Long Term Power Contract in accordance with the priorities and limitations established with respect to the Fund's operating expenses in any indenture providing for the issuance of Bonds and in the Rate Agreement and in the Priority Long Term Power Contracts. Any liability of DWR arising in connection with this Order or any claim based thereon or with respect thereto, including, but not limited to, any payment arising as the result of any breach or Event of Default under this Order, and any other payment obligation or liability of or judgment against DWR hereunder, shall be satisfied solely from the Fund. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA ARE OR MAY BE PLEDGED FOR ANY PAYMENT UNDER THIS ORDER. Revenues and assets of the State Water Resources Development System, and Bond Charges under the Rate Agreement, shall not be liable for or available to make any payments or satisfy any obligation arising under this Order. If moneys on deposit in the Fund are insufficient to pay all amounts payable by DWR under this Order, or if DWR has reason to believe such funds may become insufficient to pay all amounts payable by DWR under this Order, DWR shall diligently pursue an increase to its revenue requirements as permitted under the Act from the appropriate Governmental Authority as soon as practicable.

**ATTACHMENT A  
OPERATING ORDER**

**ARTICLE XI  
CONFIDENTIALITY**

Section 11.01. Proprietary Information.

(a) Nothing in this Order shall affect Utility's obligations to observe any Applicable Law prohibiting the disclosure of Confidential Information regarding its customers.

(b) Nothing in this Order, and in particular nothing in Sections 11.01(e)(x) through 11.01(e)(z) of this Order, shall affect the rights of the Commission to obtain from Utility, pursuant to Applicable Law, information requested by the Commission, including Confidential Information provided by DWR to Utility. Applicable Law, and not this Order, will govern what information the Commission may disclose to third parties, subject to any confidentiality agreement between DWR and the Commission.

(c) The Parties acknowledge that each Party may acquire information and material that is the other Party's confidential, proprietary or trade secret information. As used herein, "Confidential Information" means any and all technical, commercial, financial and customer information disclosed by one Party to the other (or obtained from one Party's inspection of the other Party's records or documents), including any patents, patent applications, copyrights, trade secrets and proprietary information, techniques, sketches, drawings, maps, reports, specifications, designs, records, data, models, inventions, know-how, processes, apparatus, equipment, algorithms, software programs, software source documents, object code, source code, and information related to the current, future and proposed products and services of each of the Parties, and includes, without limitation, the Parties' respective information concerning research, experimental work, development, design details and specifications, engineering, financial information, procurement requirements, purchasing, manufacturing, business forecasts, sales and merchandising, and marketing plans and information. In all cases, Confidential Information includes proprietary or confidential information of any third party disclosing such information to either Party in the course of such third party's business or relationship with such Party. Utility's Confidential Information also includes any and all lists of customers, and any and all information about customers, both individually and aggregated, including but not limited to customers' names, street addresses of customer residences and/or facilities, email addresses, identification numbers, Utility account numbers and passwords, payment histories, energy usage, rate schedule history, allocation of energy uses among customer residences and/or facilities, and usage of DWR Power. All Confidential Information disclosed by the disclosing Party ("Discloser") will be considered Confidential Information by the receiving Party ("Recipient") if identified as confidential and received from Discloser.

**ATTACHMENT A  
OPERATING ORDER**

(d) Each Party agrees to take all steps reasonably necessary to hold in trust and confidence the other Party's Confidential Information. Without limiting the generality of the immediately preceding sentence, each Party agrees (i) to hold the other Party's Confidential Information in strict confidence, not to disclose it to third parties or to use it in any way, commercially or otherwise, other than as permitted under this Order; and (ii) to limit the disclosure of the Confidential Information to those of its employees, agents or directly related subcontractors with a need to know who have been advised of the confidential nature thereof and who have acknowledged their express obligation to maintain such confidentiality. DWR shall not disclose Confidential Information to employees, agents or subcontractors that are in any respect responsible for power marketing or trading activities associated with the State Water Resources Development System.

(e) The foregoing two paragraphs will not apply to any item of Confidential Information if: (i) it has been published or is otherwise readily available to the public other than by a breach of this Order; (ii) it has been rightfully received by Recipient from a third party without breach of confidentiality obligations of such third party and outside the context of the provision of services under this Order; (iii) it has been independently developed by Recipient personnel having no access to the Confidential Information; (iv) it was known to Recipient prior to its first receipt from Discloser, or (v) it has been summarized, processed and incorporated for incorporation into reports, discussions, statements or any other further work product. In addition, Recipient may disclose Confidential Information if and to the extent required by law or a Governmental Authority, provided that (x) Recipient shall give Discloser a reasonable opportunity to review and object to the disclosure of such Confidential Information, (y) Discloser may seek a protective order or confidential treatment of such Confidential Information, and (z) Recipient shall make commercially reasonable efforts to cooperate with Discloser in seeking such protective order or confidential treatment. Discloser shall pay Recipient its reasonable costs of cooperating.

Section 11.02. No License. Nothing contained in this Order shall be construed as granting to a Party a license, either express or implied, under any patent, copyright, trademark, service mark, trade dress or other intellectual property right, or to any Confidential Information now or hereafter owned, obtained, controlled by, or which is or may be licensable by, the other Party.

Section 11.03. Survival of Provisions. The provisions of this Article XI shall survive the termination of this Order.

**ATTACHMENT A  
OPERATING ORDER**

**ARTICLE XII  
RECORDS AND AUDIT RIGHTS**

Section 12.01. Records. Utility shall maintain accurate records and accounts relating to the Contracts in sufficient detail to permit DWR to audit and monitor the functions related to the Allocated Contracts to be performed by Utility, as contemplated under this Order. In addition, Utility shall maintain accurate records and accounts relating to DWR Revenues to be remitted by Utility to DWR, consistent with the Settlement Principles for Remittances and Surplus Revenues set forth in Exhibit C hereto. Utility shall provide to DWR and its Assign(s) access to such records. Access shall be afforded without charge, upon reasonable request made pursuant to Section 12.02. Access shall be afforded only during Business Hours and in such a manner so as not to interfere unreasonably with Utility's normal operations. Utility shall not treat DWR Revenues as income or assets of Utility or any affiliate for any tax, financial reporting or regulatory purposes, and the financial books or records of Utility and affiliates shall be maintained in a manner consistent with the absolute ownership of DWR Revenues by DWR and Utility's holding of DWR Revenues in trust for DWR (whether or not held together with other monies).

Section 12.02. Audit Rights.

(a) Upon 30 calendar days' prior written notice, DWR may request an audit, conducted by DWR or its agents (at DWR's expense), of Utility's records and procedures, which shall be limited to records and procedures containing information bearing upon Utility's performance of its obligations under this Order. The audit shall be conducted during Business Hours without interference with Utility's normal operations, and in compliance with Utility's security procedures.

(b) As provided in the Act, the State of California Bureau of State Audits (the "Bureau") shall conduct a financial and performance audit of DWR's implementation of Division 27 (commencing with Section 80000) of the California Water Code, and the Bureau shall issue a final report on or before March 31, 2003. In addition, as provided in Section 8546.7 of the California Government Code, pursuant to this Section 12.02, DWR or the State of California Department of General Services, the Bureau, or their designated representative ("DWR's Agent") shall have the right to review and to copy (at DWR's expense) any non-confidential records and supporting documentation pertaining to the performance of this Order and to conduct an on-site review of any Confidential Information pursuant to Section 12.03 hereof. Utility agrees to maintain such records for such possible audit for three years after final Remittance to DWR. Utility agrees to allow such auditor(s) access to such records during Business Hours and to allow interviews of any employees who might reasonably have information related to such records. Further, Utility shall include a similar right for DWR or DWR's Agent to audit records and interview staff in any contract between Utility and a subcontractor directly related to performance of this Order.

**ATTACHMENT A  
OPERATING ORDER**

Section 12.03. Confidentiality. Materials reviewed by either Party or its agents in the course of an audit may contain Confidential Information subject to Article XI above. The use of all materials provided to DWR or Utility or their agents, as the case may be pursuant to this Article XII, shall comply with the provisions in Article XI and shall be limited to use in conjunction with the conduct of the audit and preparation of a report for appropriate distribution of the results of the audit consistent with Applicable Law.

Section 12.04 [Intentionally left blank]

Section 12.05. Additional Applicable Laws. Each Party shall make an effort to promptly notify the other Party in writing to the extent such Party becomes aware of any new Applicable Laws or changes (or proposed changes) in Applicable Tariffs hereafter enacted, adopted or promulgated that may have a material adverse effect on either Party's ability to perform its duties under this Order. A Party's failure to so notify the other Party pursuant to this Section 12.05 will not constitute a material breach of this Order, and will not give rise to any right to terminate this Order or cause either Party to incur any liability to the other Party or any third party.

Section 12.06. Other Information. Upon the reasonable request of DWR or its Assign(s), Utility shall provide to DWR or its Assign(s) any public financial information in respect of Utility applicable to services provided by Utility under this Order, or any material information regarding the sale of Allocated Power, to the extent such information is reasonably available to Utility, which (i) is reasonably necessary and permitted by Applicable Law to monitor the performance by Utility hereunder, or (ii) otherwise relates to the exercise of DWR's rights or the discharge of DWR's duties under this Order or any Applicable Law. In particular, but without limiting the foregoing, Utility shall provide to DWR any such information that is necessary or useful to calculate DWR's revenue requirements (as described in Sections 80110 and 80134 of the California Water Code).

Section 12.07. Data and Information Retention. All data and information associated with the provision and receipt of services pursuant to this Order shall be maintained for the greater of (a) the retention time required by Applicable Law or Applicable Tariffs for maintaining such information, or (b) three (3) years.

**ATTACHMENT A  
OPERATING ORDER**

**ARTICLE XIII  
DISPUTE RESOLUTION**

Section 13.01. Dispute Resolution. Should any dispute arise between the Parties or should any dispute between the Parties arise from the exercise of either Party's audit rights contained in Section 12.02 hereof, the Parties shall remit any undisputed amounts and agree to enter into good faith negotiations as soon as practicable to resolve such disputes within (10) Business Days so as to resolve such disputes, as appropriate, within the timeframes provided under this Order, or as soon as possible thereafter. For any disputed Remittances, if such resolution cannot be made before the remittance date, Utility shall remit the undisputed portion to DWR. In addition, the disputed portion of the Remittances shall be deposited into an escrow account held by a qualified, independent escrow holder. Upon resolution of such disputes, the Party that escrowed the disputed amount shall reimburse the other Party from the escrow account as necessary.

Section 13.02. ISO Settlements Disputes. Utility shall review, validate and verify all ISO charges/credits contained on all ISO settlement statements, including any charges/credits resulting from the operational, dispatch, and administrative functions related to the Contracts. Utility shall inform DWR of any discrepancies and shall dispute any such discrepancies with the ISO in accordance with the ISO's tariff and protocols. Except as provided in Section 13.03, if any ISO charge type settlement amount appearing on a Preliminary or Final Settlement Statement (as defined in the ISO tariff) resulting or relating to the Utility's performance of functions related to the Contracts under this Order is in dispute, it shall be the responsibility of Utility, on behalf of DWR, to seek resolution of said dispute through the ISO dispute resolution process as provided in the ISO's tariff.

For disputes affecting Utility's Remittances to DWR, including disputes on ISO charges to non-DWR parties that would affect Remittances to DWR, Utility shall provide to DWR: a) notification of submission of the dispute through the ISO dispute resolution process, identifying, among other items, the dispute type, quantity, price and allocation; b) a copy of the submitted dispute and all supporting data; and c) a copy of all ensuing documentation resulting from the ongoing dispute resolution process. Utility shall track and validate all disputed ISO charges involving any financial responsibility of DWR.

Section 13.03. Supplier Invoice Disputes - DWR shall continue to be responsible for all dispute resolution relating to Supplier invoices. In addition, except as specifically provided in Exhibit E of this Order, all other contract administration functions shall remain DWR's responsibility.

## **ATTACHMENT A OPERATING ORDER**

Section 13.04. Good-Faith Negotiations. Should any dispute arise between the Parties relating to this Order, the Parties shall undertake good-faith negotiations to resolve such dispute. If the Parties are unable to resolve such dispute through good-faith negotiations, either Party may submit a detailed written summary of the dispute to the other Party. Upon such written presentation, each Party shall designate an executive with authority to resolve the matter in dispute. If the Parties are unable to resolve such dispute within 30 days from the date that a detailed summary of such dispute is presented in writing to the other Party, then either Party may, at its sole discretion, submit the dispute to the Commission for final resolution.

Section 13.05. Costs. Each Party shall bear its own respective costs and attorney fees in connection with respect to any dispute resolution process undertaken by it pursuant to this Article. Provided, however, DWR shall reimburse Utility all reasonably incurred costs, including, but not limited to, in-house and retained attorneys, consultants, witnesses, and arbitration costs, arising from or pertaining to all disputes relating to ISO charges/credits contained on all ISO settlement statements resulting from the operational, dispatch and administrative functions related to the Contracts performed by Utility on behalf of DWR pursuant to the standards set forth in Section 2.02 herein and consistent with the provisions of the ISO tariff, as may be amended from time to time, including disputes on ISO charges to non-DWR parties that would affect Remittances to DWR. These costs shall be recorded and invoiced in the manner set forth in Section 8.01

## **ARTICLE XIV MISCELLANEOUS**

### Section 14.01. Assignment

(a) Except as provided in paragraphs(a) and (b) below, neither party shall assign or otherwise dispose of the Order, its right, title or interest herein or any part hereof to any part hereof to any entity, without the prior written consent of the Commission. No assignment of this Order shall relieve the assigning Party of any of its obligations under this Order until such obligations have been assumed by the assignee. When duly assigned in accordance with this Section 14.01(a) and when accepted by the assignee, this Order shall be binding upon and shall inure to the benefit of the assignee. Any assignment in violation of this Section 14.01 shall be void.

(b) DWR may assign or pledge its rights to receive performance hereunder to a trustee or another party ("Assign(s)") in order to secure DWR's obligations under its bonds (as that term is defined in the Act), and any such Assign shall be a third party beneficiary of this Order; provided, however, that this authority to assign or pledge rights to receive performance hereunder shall in no event extend to any person or entity that sells power or other goods or services to DWR.

**ATTACHMENT A  
OPERATING ORDER**

(c) Any person (i) into which Utility may be merged or consolidated, (ii) which may result from any merger or consolidation to which Utility shall be a party or (iii) which may succeed to the properties and assets of Utility substantially as a whole, which person in any of the foregoing cases executes an agreement of assumption to perform every obligation of Utility hereunder, shall be the successor to Utility under this Order without further act on the part of any of the Parties to this Order; provided, however, that Utility shall have delivered to The Commission, DWR and DWR's Assign(s) an opinion of counsel reasonably acceptable to the Commission and DWR stating that such consolidation, merger or succession and such agreement of assumption complies with this Section 13.01(c) and that all of Utility's obligations hereunder have been validly assumed and are binding on any such successor or assign.

(d) Notwithstanding anything to the contrary herein, DWR's rights and obligations hereunder shall be transferred, without any action or consent of either Party hereto, to any entity created by the State legislature which is required under Applicable Law to assume the rights and obligations of DWR under Division 27 of the California Water Code.

Section 14.02. Force Majeure. Neither Party shall be liable for any delay or failure in performance of any part of this Order (including the obligation to remit money at the times specified herein) from any cause beyond its reasonable control, including but not limited to, unusually severe weather, flood, fire, lightning, epidemic, quarantine restriction, war, sabotage, act of a public enemy, earthquake, insurrection, riot, civil disturbance, strike, restraint by court order or Government Authority, or any combination of these causes, which by the exercise of due diligence and foresight such Party could not reasonably have been expected to avoid and which by the exercise of due diligence is unable to overcome.

Section 14.03. Severability. In the event that any one or more of the provisions of this Order shall for any reason be held to be unenforceable in any respect under applicable law, such unenforceability shall not affect any other provision of this Order, but this Order shall be construed as if such unenforceable provision or provisions had never been contained herein.

Section 14.04. Survival of Payment Obligations. Upon termination of this Order, each Party shall remain liable to the other Party for all amounts owing under this Order. Utility shall continue to collect and remit, pursuant to the terms of the Servicing Arrangement and the principles provided in the Settlement Principles for Remittances and Surplus Revenues provided in Exhibit C hereto and any DWR Charges billed to customers or any DWR Surplus Energy Sales Revenues attributable to sales entered into before the effective date of termination of the Servicing Arrangement.

Section 14.05. Third-Party Beneficiaries. The provisions of this Order are exclusively for the benefit of the Parties and any permitted assignee of either Party.

Section 14.06. Governing Law. This Order shall be interpreted, governed and construed under the laws of the State of California without regard to choice of law provisions.

**ATTACHMENT A  
OPERATING ORDER**

**Section 14.07. [intentionally left blank]**

Section 14.08. Section Headings. Section and paragraph headings appearing in this Order are inserted for convenience only and shall not be construed as interpretations of text.

Section 14.09. Amendments. No amendment, modification, or supplement to this Order shall be effective unless it is in writing and signed by the authorized representatives of both Parties and approved as required, and by reference incorporates this Order and identifies the specific portions that are amended, modified, or supplemented or indicates that the material is new. No oral understanding or agreement not incorporated in this Order is binding on either of the Parties.

Section 14.10. Amendment Upon Changed Circumstances. The Parties acknowledge that compliance with any Commission decision, legislative action or other governmental action (whether issued before or after the Effective Date of this Order) affecting the operation of this Order, including but not limited to (i) dissolution of the ISO, (ii) changes in the ISO market structure, (iii) a decision regarding direct access currently pending before the Commission, (iv) the establishment of other Governmental Programs, or (v) a modification to the Contract Allocation Order may require that amendment(s) be made to this Order. If either Party reasonably determines that such a decision or action would materially affect the services to be provided hereunder or the reasonable costs thereof, then upon the issuance of such decision or the approval of such action (unless and until it is stayed), the Parties shall negotiate the amendment(s) to this Order that is (or are) appropriate in order to effectuate the required changes in services to be provided or the reimbursement thereof. If the Parties are unable to reach agreement on such amendments within 60 days after the issuance of such decision or approval of such action, either Party may, in the exercise of its sole discretion, submit the disagreement to the Commission for proposed resolution, in accordance with Applicable Law. Nothing herein shall preclude either Party from challenging the decision or action which such Party deems may adversely affect its interests in any appropriate forum of the Party's choosing.

The Parties shall, if the rating agencies request changes to this Order which the Parties reasonably determine are necessary and appropriate, negotiate in good faith, but will be under no obligation to reach agreement or to ask the Commission to amend this Order to accommodate the rating agency requests. The Parties will cooperate in obtaining any required approvals of the Commission or other entities for such amendments.

**ATTACHMENT A  
OPERATING ORDER**

Section 14.11 Indemnification.

(a) Indemnification of DWR. Utility (the “Indemnitor”) shall at all times protect, indemnify, defend and hold harmless DWR, and its elected officials, appointed officers, employees, representatives, agents and contractors (each, an “Indemnified Party” or an “Indemnatee”) from and against (and pay the full amount of) any and all claims (whether in tort, contract or otherwise), demands, expenses (including, without limitation, in-house and retained attorneys’ fees) and liabilities for losses, damage, injury and liability of every kind and nature and however caused, and taxes (of any kind and by whomsoever imposed), to third parties arising from or in connection with (or alleged to arise from in connection with): (1) any failure by Utility to perform its material obligations under this Order; (2) any material representation or warranty made by Utility shall prove to be false, misleading or incorrect in any material respect as of the date made; (3) the gross negligence or willful misconduct of Utility or any of its officers, directors, employees, agents, representatives, subcontractors or assignees in connection with this Order; and (4) any violation of or failure by Utility or Indemnitor to comply with any Applicable Commission Orders or Applicable Law; provided, however, that the foregoing indemnifications and protections shall not extend to any losses arising from gross negligence or willful misconduct of any Indemnified Party.

(b) Obligation of Utility. Consistent with the Contract Allocation Order, Utility shall not, in acting as limited agent of DWR hereunder be required to perform any obligations of any Supplier under any Allocated Contract or to make any payments on behalf of such Supplier or as the result of the failure of such Supplier to perform under any Allocated Contract.

(c) Indemnification of Utility. To the extent permitted by law, DWR (“Indemnitor”) shall at all times protect, indemnify, defend and hold harmless Utility, and its officers, employees, representatives, agents and contractors (each, an “Indemnified Party” or “Indemnatee”), from and against (and pay the full amount of) any and all claims (whether in tort, contract or otherwise), demands, expenses (including, without limitation, in-house and retained attorneys' fees) and liabilities for losses, damage, injury and liability of every kind and nature and however caused, and taxes (of any kind and by whomsoever imposed), to third parties arising from or in connection with (or alleged to arise from on in connection with): (1) any failure by DWR to perform its material obligations under this Order or any Allocated Contract and, prior to novation, any Interim Contract; (2) any material representation or warranty made by DWR shall prove to be false, misleading or incorrect in any material respect as of the date made; (3) the gross negligence or willful misconduct of the DWR or any of its officers, directors or employees, agents, representatives, subcontractors or assignees in connection with this Order; (4) any action claiming Utility failed to perform any Supplier's obligations under an Allocated Contract; and (5) any violation of or failure by DWR or Indemnitor to comply with any Applicable Law; and provided, however, that the foregoing indemnifications and protections shall not extend to any losses arising from the gross negligence or willful misconduct of any Indemnified Party.

**ATTACHMENT A  
OPERATING ORDER**

(d) Indemnification Procedures. Indemnatee shall promptly give notice to Indemnitor of any claim or action to which it seeks indemnification from Indemnitor. Indemnitor shall defend any such claim or action brought against it, and may also defend such claim or action on behalf of the Indemnatee (with counsel reasonably satisfactory to Indemnitor) unless there is any actual or potential conflict between Indemnitor and Indemnatee with respect to such claim or action. If there is any actual or potential conflict between Indemnitor and Indemnatee with respect to such claim or action, Indemnatee shall have the opportunity to assume (at Indemnitor's expense) defense of any claim or action brought against Indemnatee by a third party; however, failure by Indemnatee to request defense of such claim or action by the Indemnitor shall not affect Indemnatee's right to indemnity under this Section 14.11. In any action or claim involving Indemnatee, Indemnitor shall not settle or compromise any claim without the prior written consent of Indemnatee.

Section 14.12. Notices and Demands. (a) Except as otherwise provided under this Order, all notices, demands, or requests pertaining to this Order shall be in writing and shall be deemed to have been given (i) on the date delivered in person, (ii) on the date when sent by facsimile (with receipt confirmed by telephone by the intended recipient or his or her authorized representative) or electronic transmission (with receipt confirmed telephonically or electronically by the intended recipient or his or her authorized representative) or by special messenger, or (iii) 72 hours following delivery to a United States post office when sent by certified or registered United States mail postage prepaid, and addressed as set forth below:

Utility: Southern California Edison Company  
DWR: State of California  
The Resources Agency  
Department of Water Resources  
California Energy Resources Scheduling Division  
3310 El Camino Avenue, Suite 120  
Sacramento, California 95821  
Attn: Peter S. Garris  
Deputy Director  
Telephone: (916) 574-2733  
Facsimile: (916) 574-0301  
Email: pgarris@water.ca.gov

(b) DWR agrees, and with respect to Utility it is ordered that each Party shall be entitled to specify as its proper address any other address in the United States, or specify any change to the above information, upon written notice to the other Party complying with this Section 14.12.

**ATTACHMENT A  
OPERATING ORDER**

(c) DWR agrees, and with respect to Utility it is ordered that, each Party shall designate on Attachment A the person(s) to be contacted with respect to specific operational matters. Each Party shall be entitled to specify any change to such person(s) upon written notice to the other Party complying with this Section 14.12.

Section 14.13. Approval. This Order shall be effective on the effective date set forth in the decision in which the Commission adopts this Order. Except as expressly provided otherwise herein, neither Party may commence performance hereunder until such date. Any delay in the commencement of performance hereunder as a consequence of waiting for such adoption(s) shall not be a breach or default under this Order.

Section 14.14. Government Code and Public Contract Code Inapplicable. DWR has determined, pursuant to Section 80014(b) of the California Water Code, that application of certain provisions of the Government Code and Public Contract Code applicable to State contracts, including but not limited to advertising and competitive bidding requirements and prompt payment requirements, would be detrimental to accomplishing the purposes of Division 27 (commencing with Section 80000) of the California Water Code and that such provisions and requirements are therefore not applicable to or incorporated in this Order.

**Schedule 1**

**ALLOCATED CONTRACTS**

[Schedule 2

**INTERIM CONTRACTS]**

Schedule 3

**REPRESENTATIVES AND CONTACTS**

**(END OF ATTACHMENT A)**

## **EXHIBIT A OPERATING PROTOCOLS**

Pursuant to Section 4.01 of this Order, Utility shall perform the day-to-day scheduling and dispatch functions, including day-ahead, hour-ahead and real-time trading, scheduling of transactions with all involved parties on behalf of DWR, making surplus energy sales and obtaining relevant information for these functions such as transmission availability and others, with respect to the Allocated Contracts set forth in Schedule 1 hereto, all as more specifically provided below and in compliance with the provisions of each of the Contracts:

- I. Resource Commitment and Dispatch. Utility shall use good faith efforts to dispatch Allocated Contracts and, prior to novation, Interim Contracts, based on the principle of “least cost dispatch” to retail customers, consistent with the Contract Allocation Order and other Applicable Commission Orders.
  - A. Annual and Quarterly Load and Resource Assessment Studies. Utility shall provide to DWR copies of its annual and quarterly load and resource assessment studies. Provided that Utility submits substantially the same information to the Commission, copies of the Commission submission will be simultaneously sent to DWR to satisfy requirements of this section.
  - B. Scheduling Protocols.
    1. DWR is responsible for notifying the counter-party to each of the Allocated Contracts that scheduling under the Allocated Contracts will be performed by Utility before the first day that schedules are due to be submitted by Utility. DWR is responsible for notifying Utility of any changes to the Allocated Contracts that it has negotiated, including changes to the scheduling terms. DWR agrees to provide such notice as soon as possible following the negotiation of any changed provisions and in any case prior to the time that any changed provisions become effective.

To the extent that any of the Interim Contracts are amended or modified by DWR or Utility, including changes to the scheduling terms, DWR and Utility agree to provide such notice to the other Party as soon as possible following the negotiation of any changed provisions and in any case prior to the time that any such changes provisions become effective.
    2. Utility shall schedule Contracts in accordance with their terms and in accordance with the requirements of the Control Area operator or operators with whom the Contract must be scheduled to provide for power delivery.
- II. ISO Ancillary Service (AS) Market. Among the Contracts are resources that are or may become qualified to be bid into the ISO’s Ancillary Services (“AS”) market or that Utility may use in its self-provision of AS. Utility shall develop protocols and procedures for the use of DWR resources for AS.

## **EXHIBIT A OPERATING PROTOCOLS**

### **III. Surplus Energy Sales and Energy Exchanges**

- A. Over-generation. In an over-generation situation (i.e., a condition where must take resources are in excess of retail load, wholesale load and available surplus sales and it is necessary to physically back-down must-take resources), or an anticipated or projected over-generation situation, Utility will determine which must-take resource should back down in accordance with the ISO tariff, Good Utility Practice and Utility's back-down protocols, provided such back-down protocols have been provided to DWR and DWR has not objected to them. In the event DWR objects to Utility's back-down protocols, any disputes shall be submitted to Commission for resolution. In order to reduce the need for physical curtailment in over-generation situations, DWR and Utility shall develop pay for curtailment protocols and procedures that will enable Utility to instruct a must-take resource not to deliver energy under specified conditions for Commission review and approval. The costs and charges associated with mitigation of an over-generation situation shall be allocated among the parties on a pro-rata basis consistent with the surplus sales allocation principles set forth in Exhibit C.
- B. Energy Exchange Arrangements. Existing non-DWR/CERS exchanges and those that might be transacted post-2002, will be considered URG exchanges. The accounting of energy necessary to support energy exchanges is addressed in Exhibit C.
- C. Surplus Energy Sales Arrangement. Utility shall on a monthly basis and updated weekly basis prepare a sales plan addressing balance of month, weekly, balance of week and other short-term sales and shall submit such plan to DWR for forecasting and reporting purposes. Such plan shall address sales of from the combined portfolio of URG resources and Allocated Contracts, which will be administered by Utility on its own behalf and acting as DWR's limited agent. Utility shall pursue surplus sales in a fashion reasonably designed to serve the overall best interests of retail electric customers based on information known or could have been known by Utility at the time. Utility agrees to include sufficient details in the sales plans to allow DWR to satisfy its financial management and reporting requirements. To the extent there is surplus power uncommitted to a forward energy surplus sales transaction, Utility shall be required to bid such surplus sales energy in the day-ahead, hour-ahead, or real-time market. Utility shall arrange for transmission service to accommodate surplus sales to the extent that transmission service is available and cost effective. The costs of transmission service, ISO charges, and the cost of firm transmission rights associated with such surplus energy sales transactions shall be treated in accordance with the Settlement Principles for Remittances and Surplus Revenues attached hereto as Exhibit C. For surplus energy sales to third parties, Utility shall apply prudent credit risk

**EXHIBIT A  
OPERATING PROTOCOLS**

management criteria to ensure that such transactions are consistent with industry accepted credit standards. Utility shall inform DWR on a confidential basis of the credit criteria it uses. If any disputes arise that cannot be resolved between the parties, either party may raise the issue with the Commission. If Utility sells surplus Power to an entity that requires collateral, the cost and obligation to post such collateral shall be Utility's responsibility.

- IV. Daily Information. On a daily basis, Utility shall transmit to DWR a copy of its day-ahead and hour-ahead schedules submitted to the ISO. Utility shall remit DWR Revenues to DWR for each transaction day consistent with the Settlement Principles for Remittances and Surplus Revenues set forth in Exhibit C hereto and the provisions of the Servicing Arrangement.
- V. Outage Coordination and Determination of Resource Availability of Contracts. Utility shall communicate with the SC of each Contract to coordinate, approve, document and report planned Contract outages. For those Contracts where resource availability affects capacity payments, Utility will use good faith efforts to verify supplier actual resource availability, and keep records of resource availability as reported by supplier. In addition, Utility shall document all outages (forced and planned) and notices of outages of DWR contract resources and provide such documents to DWR within five (5) business days after the end of each calendar month.
- VI. Interim Contracts. Utility shall and DWR agrees to update the Attachments and data requirements associated with this Order as needed to incorporate the addition of new Interim Contracts entered into after the effective date of this Order.

**(END OF EXHIBIT A)**

## **EXHIBIT B FUEL MANAGEMENT PROTOCOLS**

Certain of the Contracts listed on Schedule 1 of this Order provide DWR the option of either (i) letting the Supplier provide the necessary natural gas for its generating units at an index-based price or agreed upon fixed price or (ii) DWR procuring the gas supply and causing such supply to be delivered to the Supplier under a tolling arrangement (“Fuel Option”). Certain of the Contracts with Fuel Option provides that DWR can decide on a monthly basis whether to supply the gas and others provide that the decision be made annually or semi-annually when DWR reviews the Supplier’s proposed fuel plan.

The purpose of this Exhibit B is to describe the relationship which will exist between DWR and Utility and the specific responsibilities of each as they all relate to managing the natural gas provisions of the Contracts which include Fuel Options. Specifically, this Exhibit B will address responsibilities for the following activities: (i) determining types and lengths of gas contracts, (ii) nominating deliveries, (iii) contracting for gas transportation and storage, (iv) managing imbalances, (v) reviewing, authorizing and making payment of gas invoices and (vi) determining and implementing hedge strategies, as appropriate.

### **I. Operating Relationship Between DWR and Utility**

While DWR will retain legal and financial responsibility for gas and related services, Utility shall, as a limited agent acting for DWR, perform the administrative and operational activities, as further specified below, required to ensure adequate gas is supplied to Suppliers’ generating units, consistent with the tolling provisions included in the Contracts. The intent of this relationship is to provide Utility sufficient flexibility and authority to execute normal day-to-day activities associated with managing the fuel provisions of tolling Contracts and procurement of natural gas and related services without direct involvement by DWR but in a manner consistent with Utility Fuel Plans which have been reviewed by DWR and the Commission.

**EXHIBIT B**  
**FUEL MANAGEMENT PROTOCOLS**

**II. Fuel Activities**

Consistent with the terms of the Contracts with Fuel Options, Utility shall have administrative and operational authority to act, as a limited agent, for fuel supply related activities, consistent with the following goals and guidelines whenever Utility has elected to procure gas for a Supplier under a Contract with Fuel Option.

1. Utility shall use reasonable commercial efforts to deliver gas in a reliable manner and consistent with gas requirements for producing scheduled energy.
2. Utility shall develop a portfolio of gas supply for DWR Contracts that contain Fuel Options and where Utility is to procure the gas, consistent with the approved Fuel Plans. Such portfolio should be diversified in terms of price mechanism, period of performance, and gas suppliers.
3. Utility shall develop a portfolio of supply which is cost-effective relative to the market.

**III. Review of Generator Prepared Fuel Plans**

In accordance with the terms of each of the Contracts with Fuel Options, Utility shall review each fuel plan prepared and submitted by the Supplier and forwarded to the utility by DWR and determine whether to recommend (i) approval of the fuel plan and authorization for the Supplier to provide gas to its generating unit(s), or (ii) procurement and management of gas supplies to the generating unit(s) by Utility. Utility shall advise DWR and the Commission on a timely basis of its recommendation regarding responsibility for supplying natural gas. DWR shall review Utility's recommended Fuel Plans and either approve or identify requested changes. Once approved, Utility shall advise the Supplier in accordance with the time requirements included in the appropriate Contract with Fuel Option. In addition, for any Fuel Plans which have been implemented and are operative as of the Effective Date, and where DWR has previously elected to be responsible for gas supply, Utility may advise DWR that it would rather have Supplier provide the gas as of the Effective Date. DWR shall coordinate with Utility and Supplier to revise such fuel plans, to the extent possible, prior to the Effective Date.

**EXHIBIT B**  
**FUEL MANAGEMENT PROTOCOLS**

**IV. Fuel Procurement Strategies**

Under the Contracts with Fuel Option, upon Utility's determination that Utility will be responsible for procuring the natural gas, Utility shall, acting as the limited agent of DWR, have administrative and operational responsibility for determining its gas procurement strategies, including but not limited to (i) types of contracts, (ii) length of contracts, (iii) pricing terms, (iv) use of storage, (v) types of gas transportation, (vi) delivery point(s), (vii) whether and how to obtain gas price forecasts, (viii) if and what risk management tools are to be used, and (ix) how to maintain current market intelligence.

Utility shall consolidate these strategies and submit them to DWR and the Commission as a "Gas Supply Plan" on a semi-annual basis. DWR and the Commission will review and the Commission will approve the Gas Supply Plan. Once approved, Utility may act within that Gas Supply Plan without further DWR involvement, except as provided below.

**V. Gas Purchasing**

Utility and DWR shall jointly determine a list of approved gas suppliers who can be used to supply gas under the Contracts with Fuel Options. Master agreements intended to cover normal day-to-day volumes will then be executed with such approved providers. While DWR will be the executing party, such agreements shall specifically authorize Utility to act for and on behalf of DWR in negotiating specific prices, quantities and delivery periods for specific purchases under such master agreements.

**VI. Gas Transportation**

Utility shall have responsibility for recommending to DWR which pipelines should transport gas if Utility is to procure gas as DWR's limited Agent, under a Contract with Fuel Option. Following approval of a Gas Supply Plan, Utility shall negotiate firm and/or interruptible agreements with such pipelines and consistent with such Fuel Plan submit them to DWR for execution. While DWR will be the executing party, such agreements with pipelines shall specifically authorize Utility to act for and on behalf of DWR in nominating gas deliveries, making imbalance trades and managing gas volumes transported under such agreements.

**EXHIBIT B**  
**FUEL MANAGEMENT PROTOCOLS**

**VII. Gas Scheduling**

Utility shall have full administrative and operational responsibility for scheduling gas deliveries, whether to a specific generating plant or to storage for all gas contracts entered into by DWR or by Utility on DWR's behalf pursuant to this Exhibit B. This function includes use of interstate and intrastate gas pipeline provider websites, confirming via telephone, and all other activities required to move gas from the designated delivery point, as determined by the Utility, to its destination, as determined by the Utility.

**VIII. Storage Capacity, Injections and Withdrawals**

Utility shall have responsibility for devising plans for gas storage services, if Utility is to procure gas under Contracts with Fuel Option. Following approval of the utility's Gas Supply Plans, Utility shall negotiate firm and/or interruptible agreements with such storage service providers and submit them to DWR for execution. While DWR will be the executing party, such agreements with storage service providers shall specifically authorize Utility to act for and on behalf of DWR in nominating gas injections and withdrawals under such agreements.

**IX. Managing Gas Delivery/Usage Imbalances**

For gas that it purchases and transports on behalf of DWR, Utility shall have full administrative and operational responsibility for monitoring and managing the daily status of gas usage vs. gas deliveries (i.e. gas imbalances). In addition, to the extent that gas transportation providers issue operational flow orders or require adjustments in scheduled gas deliveries due to system constraints, Utility shall be responsible for compliance with such orders. Utility shall also be responsible for any penalties imposed by gas transportation providers for imbalances caused by Utility, due to its failure to exercise prudent gas management practices.

**X. Invoice Review, Approval and Payment**

For natural gas, pipeline transportation and storage services it purchases in accordance with this Exhibit B, Utility shall have responsibility for receiving invoices from gas, transportation and storage suppliers, reviewing them for accuracy, approving/rejecting invoices for payment and forwarding to DWR for payment. Utility shall provide DWR sufficient documentation to verify payment of the invoices.

**XI. Forecasting**

Utility shall be responsible for all gas price, demand and supply forecasts which Utility believes are consistent with its gas supply responsibilities.

**EXHIBIT B**  
**FUEL MANAGEMENT PROTOCOLS**

**XII. Risk Management**

Utility shall develop and include in its Gas Supply Plans, plans for the hedging of DWR Fuel Supply costs.

**XIII. Market Intelligence**

Any and all efforts to obtain, analyze and utilize market intelligence for decision-making purposes shall be the responsibility of Utility.

**XIV. Payment of Gas Costs**

For natural gas, pipeline transportation and storage services that are purchased and provided by a Supplier under an approved Gas Fuel Supply Plan, DWR shall pay such gas related costs as part of the invoice for Energy submitted by the Supplier. For natural gas, pipeline transportation and storage services provided under DWR contracts and administered by Utility on behalf of DWR, DWR shall pay invoices after they have been reviewed and approved for payment by Utility.

**XV. Allocation of Existing DWR Gas Contracts**

DWR has entered into gas supply, transportation and storage contracts that have expiration dates after the Effective Date of this Agreement. The administrative and operational control of such contracts will become the responsibility of Utility. This shall include (i) scheduling gas transportation, (ii) confirming gas deliveries, (iii) nominating gas withdrawals from and injections into storage, if applicable, (iv) and reviewing and approving invoices for payment. When approved, invoices shall be transmitted to DWR for payment within 10 days of receipt of invoice from the gas supplier, gas storage or gas transportation provider.

**XVI. Financial Hedge Instruments**

If DWR has entered into any financial hedge transactions that will remain operable after the Effective Date of this Agreement, DWR shall retain full administrative and operational control over such transactions.

**(END OF EXHIBIT B)**

**EXHIBIT C**  
**SETTLEMENT PRINCIPLES FOR REMITTANCES AND SURPLUS REVENUES**

This Exhibit C outlines the principles by which Utility will calculate revenues associated with surplus energy sales and DWR energy delivered to retail customers. This Exhibit C also addresses the information that Utility will provide to DWR to support DWR payment of Contract invoices, and invoices from natural gas supplier(s) for fuel provided to service DWR Contracts where tolling options have been implemented.

This Exhibit C works in conjunction with the applicable Servicing Arrangement with Utility for purposes of determining the remittance amounts by Utility, which will serve as DWR's billing and collection agent.

In accordance with the Contract Allocation Order<sup>1</sup>, this Exhibit C provides that:

- Revenues will be allocated for both surplus sales and retail customer deliveries
- Revenues will be allocated pro rata, based on dispatched quantities of energy
- The principle of balancing least cost economic dispatch while maintaining reliability is reinforced through these revenue allocation protocols.
- Surplus sales quantities will be calculated as the difference between Utility's Energy Delivery Obligations (EDO) and the combination of energy from URG and energy dispatched from Allocated Contracts.

Utility's Energy Delivery Obligations is defined as: (1) Utility's retail load<sup>2</sup>, (2) all pump-back loads existing as of the date of this order, (3) energy return obligations under exchange transactions between Utility and counter parties and energy sales obligations existing as of the date of this order, and (4) transmission losses.

The principles herein, together with the applicable methods and calculations contained in the Servicing Arrangement, form a substantive component of the accounting protocols required to implement the Contract Allocation Order. This Exhibit should also be read in conjunction with Exhibit F ("Data Requirements").

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<sup>1</sup> Contract Allocation Order is CPUC Decision (D.) 02-09-053.

<sup>2</sup> PG&E retail load obligations per CPUC May 2002 Service Order (D.02-05-048) includes Western Area Power Administration (WAPA) load, although this is not retail load.

**EXHIBIT C**  
**SETTLEMENT PRINCIPLES FOR REMITTANCES AND SURPLUS REVENUES**

**XVII. Utility Remittance to DWR**

Utility shall remit to DWR an Energy Payment for the delivery of Contract energy to Utility retail customers and a separate payment for DWR's share of Surplus Energy Sales Revenues. The principles for the remittances to DWR of Surplus Energy Sales Revenue and Energy Payment are contained in Sections A and B of this Exhibit C, respectively. The details for determination of the remittances to DWR by Utility are contained in the Servicing Arrangement between the Utility and DWR.

**A. Utility Remittance to DWR of Revenue from Surplus Energy Sales**

**Surplus Energy and Revenues**

Surplus energy exists when dispatched supply from Utility portfolio and DWR Contracts exceeds Utility's Energy Delivery Obligations. When such a condition exists, the revenues from the sale of surplus energy shall be shared between Utility and DWR. Surplus sale revenues can occur either through a forward market sale or a delivery of the excess energy into the ISO real time market. In addition to the sharing of surplus energy revenues, the quantity of any surplus energy shall likewise be shared between Utility and DWR, and used in the determination of the Hourly Percentage Factor described in Section I.(B).

**Surplus Energy Quantity**

The Surplus Energy quantity shall be determined by subtracting Utility's Energy Delivery Obligations from the sum of dispatched Utility Supply and dispatched DWR Supply. Utility Supply shall include dispatched energy from URG, new Utility contracts and Utility market purchases net of adjustments described below. DWR Supply shall include dispatched energy from DWR must take and dispatchable contracts net of adjustments described below.

DWR Surplus Energy quantity shall be the product of Surplus Energy quantity multiplied by the DWR Surplus Energy Percentage. Utility Surplus Energy quantity shall be the remaining portion of Surplus Energy. Both Utility and DWR Surplus Energy quantities shall be applied to the respective Party's energy supply quantities for determination of the Hourly Percentage Factor described in Section (B).

**Surplus Energy Sales Revenues**

Surplus Energy Sales Revenues shall be shared between Utility and DWR in the same manner as Surplus Energy. All shared revenues shall be net of any costs associated with the sale, such as transmission costs and broker fees. ISO Charges incurred after the effective date will be allocated to the Utility, consistent with Exhibit D.

**EXHIBIT C**  
**SETTLEMENT PRINCIPLES FOR REMITTANCES AND SURPLUS REVENUES**

**Forward Market Sale**

DWR share of revenues from a forward market sale of surplus energy shall be the product of the net revenue multiplied by the DWR Surplus Energy Percentage. Utility share of these revenues shall be net revenue less DWR share of net revenues. Revenues from a forward market sale shall not be distributed to DWR until after Utility receives the revenues from the sales and pays sale-related charges.

**ISO Real Time Market Sales**

Revenues from delivery of surplus energy to the ISO real time market shall be determined from the product of the positive load or supply deviation multiplied by the ISO real time market price. These revenues will be netted against any ISO charges related to the load or supply deviation, including a negative ISO price. Load deviation is determined by subtracting Final Hour Ahead Load Schedule from Utility metered load, however only positive quantities, where schedule exceeds meter, reflect surplus conditions for revenue sharing. Supply deviation is determined by subtracting final hour ahead supply schedule from metered generation for all resources; however, only positive quantities, where meter exceeds schedule, reflect surplus conditions for revenue sharing.

DWR share of revenues from delivery of surplus energy to ISO real time market shall be the product of the net revenues multiplied by the DWR Surplus Energy Percentage. Utility share of these net revenues shall be the net revenue less DWR share of net revenues. DWR's share of net revenues from delivery of surplus energy to the ISO real-time market shall not be distributed to DWR until after the final monthly invoice from the ISO is due for the month in which the surplus energy was delivered.

**Over-generation Periods**

During periods of over-generation, surplus sales may be made at very low, zero or even negative prices. In such conditions, the surplus sale revenue calculations as described above still hold. However it is recognized that the sales may result in little or no revenue. Sales could even be done at a cost to the seller. That seller could be Utility or the ISO selling in an "out-of-market" condition. During these conditions, ISO-related charges assigned to Utility for such sales (e.g. – ISO selling out-of-market) are included in the surplus sales revenue as a cost. During over-generation conditions there may be no market in which to sell surplus energy. In that event, or in expectation of that event, Utility shall declare that no valid market exists for surplus energy and shall begin curtailing must-take resources in accordance with Utility's procedures for mitigating over-generation conditions. Such mitigation measures shall be consistent with good utility practice, specifically hydroelectric facilities at spill or near-spill conditions and nuclear facilities scheduled by Utility are the last resources to be reduced in power output.

**EXHIBIT C**  
**SETTLEMENT PRINCIPLES FOR REMITTANCES AND SURPLUS REVENUES**

DWR Surplus Energy Percentage shall be equal to the ratio of DWR Supply to the sum of Utility Supply and DWR Supply, expressed as follows:

$$DWR\ Surplus\ Energy\ Percentage = DWR\ Supply / (Utility\ Supply + DWR\ Supply)$$

Where:

DWR Supply is total energy dispatched from DWR Allocated Contracts with adjustments for transmission losses. Ancillary Services and ISO Instructed Energy transactions described below.

Utility Supply is total energy dispatched from URG, new Utility contracts and Utility market purchases with adjustments for Ancillary Services and ISO Instructed Energy, exchange transactions, negative load deviations and supply deviations as described below, and with deductions for existing energy sales transactions and utility pump-back load as of the date of this Operating Order, PG&Es WAPA load, and transmission losses.

**Definitions and Adjustments**

Certain energy and capacity transactions, which may be conducted by Utility in its normal course of business, may affect the Utility and DWR Supply quantities used in pro rata calculations.

Exchanges are transactions where energy is delivered to a third party in one period and a similar, but not necessarily equal, amount of energy is returned by third party in a different period. For the purposes of remittance determination, exchanges existing as of the date of the Operating Order are excluded from the calculation of surplus sales. New exchanges use energy from the Utility's URG.

Forward Sales are transactions where energy is sold in a forward market to balance supply with demand. In general, for the purposes of remittance determination, forward sales are made using energy from the joint Utility/DWR portfolio.

Ancillary Services are transactions where capacity from certain qualifying resources is sold to ISO for ancillary services rather than being used as energy to serve retail load. Resources from both Utility portfolio and DWR Contracts may qualify for use as ancillary services. Since the capacity used for ancillary services does not serve retail energy load, ancillary service capacity is not considered as a joint Utility/DWR portfolio transaction for the purpose of remittance determination. If Utility or DWR Contract resource capacity is used for ancillary services, the capacity quantity will not be included in the supply quantity of the owning party for the purpose of pro rata share calculations, and owning party will retain all the revenues from the ancillary services as well as all associated transaction costs and ISO charges. Energy from dispatched ancillary services is treated in the following manner, which is intended to mirror the ISO's treatment of such Energy: (a) Energy from dispatched Spin, Non-Spin, or Replacement Reserves is treated as ISO instructed Energy (see below); (b) Energy from dispatched Regulation UP or Regulation Down is treated as Uninstructed Supply Deviations (see below).

**EXHIBIT C**  
**SETTLEMENT PRINCIPLES FOR REMITTANCES AND SURPLUS REVENUES**

Positive ISO Instructed Energy is a transaction where certain qualifying resources are able to sell energy from unused capacity to the ISO in the real time market. The energy delivered from these resources is directed by the ISO in real time to balance supply and load imbalances on the grid. Either Utility portfolio or DWR Contracts may contain resources that have ability to provide instructed energy to ISO. Since instructed energy is resource specific and does not directly serve the retail load of any utility, instructed energy is not considered as a joint Utility/DWR portfolio transaction for the purpose of remittance determination. If Utility or DWR Contract resources are dispatched as instructed energy, the energy quantity will not be included in the supply quantity of the owning party for the purpose of pro rata share calculations, and owning party will retain all the revenues from the instructed energy as well as all associated transaction costs and ISO charges.

Negative ISO Instructed Energy is the purchase of energy from the ISO to replace energy that a Utility or DWR resource was scheduled to generate, but did not generate due to the ISO's award of a bid to reduce generator output. Negative ISO Instructed Energy is considered to be Utility Supply for Utility URG replacement purchases and DWR Supply for DWR Contract replacement purchases.

ISO Uninstructed Energy is a transaction where energy is delivered or received from the ISO grid in the real time based on the actual consumption of retail load and actual deliveries of supply resources. ISO Uninstructed Energy shall be treated as described below for Uninstructed Load and Uninstructed Supply Deviations.

Uninstructed Load Deviations

Uninstructed Load Deviations are the difference between scheduled load and metered load. If load deviations are positive (schedule exceeds meter), it is considered that excess supply was dispatched from the joint Utility/DWR portfolio in excess of quantity needed to serve retail load, and that the ISO credit for the excess supply should be shared pro rata as described above. If load deviations are negative (meter exceed schedule), it is considered that Utility had to procure additional supply from ISO real time market. The negative load deviation quantity procured from ISO real time market is considered a Utility market purchase and the quantity will be included in Utility Supply for pro rata share calculation purposes.

**EXHIBIT C**  
**SETTLEMENT PRINCIPLES FOR REMITTANCES AND SURPLUS REVENUES**

Uninstructed Supply Deviations

Uninstructed Supply Deviations are the difference between scheduled supply and metered supply plus an ISO allocation for transmission losses. If supply deviations are positive (meter exceeds schedule), it is considered that excess supply was dispatched from the joint Utility/DWR portfolio in excess of the quantity needed to serve retail load, and that the ISO credit for the excess supply should be shared pro rata as described above. If supply deviations are negative (schedule exceeds meter), it is considered that Utility had to procure additional supply from the ISO real time market. The negative supply deviation quantity procured from the ISO real time market is considered a Utility market purchase and the quantity will be included in Utility Supply for pro rata share calculation purposes.

**B. Utility Remittance to DWR for Sales of DWR Energy to Utility Retail Customers  
–Energy Payment**

Utility shall remit to DWR its Energy Payments according to the terms of each Utility's respective Servicing Arrangement.

The DWR Energy Payment is billed by each utility to customers in accordance with the terms of each applicable Utility Servicing Arrangement. The DWR Energy Payment is billed kWhs served by Net DWR Supply at the applicable CPUC approved DWR rate, less uncollectibles as established by the respective Servicing Arrangement. Net DWR Supply is total DWR Supply less DWR share of surplus energy. The DWR Energy Payment is allocated based on the percentage of energy supplied by DWR to Utility, which is the "Hourly or Daily Percentage Factor" multiplied by the retail load billed to customer. The Hourly or Daily Percentage Factor is determined by calculating the percentage of net energy supplied by DWR to Utility to serve retail load, as expressed below over the relevant time period, as further described in the Utility Servicing Agreement:

$$\text{Hourly Percentage Factor} = \text{Net DWR Supply} / (\text{Net Utility Supply} + \text{Net DWR Supply})$$

$$\text{Net DWR Supply} + \text{True-Up for Prior Period (For SCE) Daily Percentage Factor} = \text{Estimate of Bundled Customer Usage}$$

Where:

Net DWR Supply is DWR Supply quantity used for the determination of DWR Surplus Energy Percentage less DWR share of surplus energy quantity, which is determined by the product of surplus energy multiplied by DWR Surplus Energy Percentage.

Net Utility Supply is Utility Supply quantity used for the determination of DWR Surplus Energy Percentage less Utility share of surplus energy quantity, which is total surplus energy less the DWR share of surplus energy quantity.

True-Up for Prior Period and Estimate of Bundled Customer Usage are defined in Utility's Servicing Arrangement.

## **EXHIBIT C**

### **SETTLEMENT PRINCIPLES FOR REMITTANCES AND SURPLUS REVENUES**

In the Event of any conflict between the formulas and procedures in this Exhibit C and the formulas and procedures in Utility's Servicing Arrangement, those contained in Utility's Servicing Arrangement shall govern.

#### **II. Bilateral Settlement**

Under the Contract Allocation Order DWR remains financially obligated for the Contracts. DWR will continue to pay suppliers and this requires DWR to apply appropriate procedures and controls to ensure that payments are made accurately and in a timely manner. Information supporting Contract settlements will be provided by Utility, and additional information may also be required to address contract performance issues (such as availability and other items as discussed in Exhibit E) and to allow DWR to settle disputes in an appropriate manner.

DWR requires sufficient information to support payment requests so that it can meet the accountability requirements of the State Controller's Office and the State Auditor, and simultaneously comply with the applicable statutes concerning disbursement of public monies. The Utility shall calculate and transmit the bilateral settlements with Contract counterparties to DWR. DWR shall make the associated payments to suppliers, and Utility will provide the data as required in Exhibit F to allow it to perform these duties in a timely manner as set forth herein.

DWR shall continue to pay Contract costs directly to the suppliers upon validation of invoices.

#### **III. Fuel Cost Verification and Settlement**

Exhibit B provides a detailed discussion concerning Utility's responsibility for fuel management. DWR will continue to pay fuel suppliers and others involved in providing fuel management services for the delivery of fuel for those DWR Contracts where the Fuel Option has been elected. Utility will comply with the requirements contained in Exhibit F to provide DWR with the necessary information to apply appropriate procedures and controls to ensure that fuel payments and payments for fuel management services are made accurately and in a timely manner and to allow DWR to settle disputes in an appropriate manner.

**(END OF EXHIBIT C)**

**EXHIBIT D**  
**ISO SCHEDULING COORDINATOR CHARGES**

The financial obligation for ISO costs incurred after the effective date will be allocated to the Utility, unless otherwise extended under the existing letter agreement with DWR related to the ISO charges and any future Applicable Commission Orders. Unless specifically provided in Exhibit C hereto, all ISO costs incurred after the effective date attributable to load and resources shall be the responsibility of Utility. The Utility's obligation to pay for ISO charges should not result in double recovery of these charges.

Any refunds, reruns or credits through the ISO attributable to costs incurred by DWR for trade dates beginning HE 2200, January 17, 2001, up to the effective date shall belong to DWR and Utility shall take all necessary action to remit such refunds or credits to DWR within reasonable time.

**(END OF EXHIBIT D)**

**EXHIBIT E**  
**CONTRACT MANAGEMENT AND ADMINISTRATION PROTOCOLS**

DWR will retain all contract management, administration and monitoring responsibilities for the Contracts, including due diligence, performance testing, contract performance assessment, formal correspondence and notifications with Suppliers, exercise of contract options, contract interpretation and dispute resolution, and financial reporting. In the event Utility and DWR agree in the future to transition the Due Diligence and Performance Test Monitoring functions set forth in this Exhibit E from DWR to the Utility, the Parties will first develop a mutually acceptable plan of performance, a transition schedule, and a transition plan for transfer of such functions from the DWR to the Utility for review and approval by the Commission. Upon agreement of the Parties to an acceptable plan and completion of the transition period, the agreed upon functions will transfer from DWR to the Utility (“the Transition Date”).

**I. Due-Diligence**

The Due Diligence function assesses the progress of permitting, construction and performance capability of new generating facilities under to the Contracts. Due Diligence includes (i) monitoring activities associated with the development, construction, and performance of new generating facilities; (ii) identification and tracking of key projects milestones including permitting, equipment procurement, construction, commissioning, and performance testing; (iii) coordination with permitting agencies and the Suppliers, review of project documents, physical inspections, and witnessing of acceptance tests, (iv) verification that the new facilities can perform in a manner that is consistent with the obligations under the appropriate Contract and (v) review and approval of commercial operation dates and documentation.

**II. Performance Test Monitoring**

**A. Annual Performance Tests**

Annual Performance Tests verify ongoing compliance with the Contracts and establish plants capacities and efficiencies that are used to calculate contract payments, either for capacity or energy. Annual Performance Test responsibilities generally consist of (i) verification of testing procedures, (ii) witness of performance tests, (iii) review of test results and test reports for compliance with Contract terms and conditions, and (iv) identification of contract non-compliance for dispute resolution with the Supplier. Prior to the Transition Date, the Utility will cooperate and assist DWR with scheduling of upcoming Annual Performance Tests, and the Utility may have its staff witness such testing.

**B. Scheduled Performance Tests**

Prior to the Transition Date, on occasion, DWR may request that Utility schedule a peaking or dispatchable generating facility for testing (to assure that such generation facility is available according to the terms of the contract between such generation facility and DWR). The utility will cooperate and shall coordinate with the DWR on a mutually acceptable date for

**EXHIBIT E**  
**CONTRACT MANAGEMENT AND ADMINISTRATION PROTOCOLS**

performance of the test. On the date agreed upon, the Utility shall schedule the specified facility or unit for operation to test the availability, reliability, and performance of the scheduled unit.

**C. Test Procedures and Protocols**

Prior to January 1, 2003, Utility shall meet with DWR staff to review, discuss, and verify test procedures and protocols developed by DWR.

**III. Contract Performance Assessments**

DWR shall continue to perform an after-the-fact review ("Performance Assessment") of each Contract on a periodic basis. The purpose of the Performance Assessment is to assess, analyze, and document the overall performance of each contract Supplier, assure that the Supplier is satisfying the terms and conditions of their respective contract(s), and identify potential issues, disputes, and other matters that may require corrective action by either Utility or DWR as part of contract administration.

**IV. Other Administrative Matters**

**A. Correspondence with Suppliers**

Utility and DWR agree to copy each other on all written correspondence and written notifications sent to or received from a Supplier of an Allocated Contract or Interim Contract related to the activities described in this Exhibit E. The Parties agree to provide additional information as requested related to verification and support of the activities described in this Exhibit E.

**B. Reports**

Results of the activities described in this Exhibit E will be documented by DWR in written reports ("Reports") and shall be discussed periodically between DWR and the Utility. Such Reports may include, but are not limited to, summary of test results, status of projects, recommendations for operational changes, procedural changes, dispute resolution, and results of Performance Assessments.

Such Reports, documentation, or other material developed by either Party shall be shared and reviewed with the other Party on a timely basis.

**C. Cooperation**

Utility agrees to cooperate, assist, and support DWR staff, as required, in data collection, analysis, and Report preparation which includes providing DWR staff or a designated agent access to all data necessary to complete reports related to the activities described in this Exhibit E.

**(END OF EXHIBIT E)**

**EXHIBIT F****DWR DATA REQUIREMENTS FROM UTILITY**

To effectively fulfill its legal and financial responsibilities, DWR requires standard, reliable and reliable information. Post transition, primary source of this information will be the three utilities.

The information being requested is required to:

- Verify, audit, monitor and authorize payment for bilateral invoices for allocated DWR contracts;
- Manage disputes between DWR and the bilateral counterparties;
- Verify, audit, monitor and authorize payment for fuel procured by the utilities relating to DWR allocated contracts;
- Verify, audit, monitor, collect and IOU remittances relating to repayment of Energy Supplied and Bond Funds;
- Forecast, manage and monitor DWR monetary requirements and associated accounts;
- Ongoing reporting responsibilities under AB1X, the rate agreement and bond indenture;
- Audit and monitor long-term contract performance and associated risks prior to contract assignment or novation.

Utility shall provide to DWR the information listed in the table below. The table below contains a brief description of the information to be provided by Utility, the frequency for which Utility shall provide such information to DWR, and the effective date for when Utility shall provide such information to DWR.

<b>Contract/Trade</b>				
<b>Requirement</b>	<b>Description</b>	<b>Freq</b>	<b>Effective</b>	<b>Delivery Method</b>
Surplus Energy Sales	Monthly utility's surplus energy sales plan updated weekly. Sales plan will outline all surplus sales contemplated by the utility, including but not limited to balance of month, weekly balance of week and other short-term sales.	Monthly	1/1/2003	Email/Fax - Standard Form TBD
Surplus Energy Sales	Contract/Deal information relating to the forward sale of DWR surplus energy. This would include but is not limited to Counterparty, Term (Start/End Date), Hourly Contract Volumes, Hourly Price, Location, any fee information, etc.	When executed	All surplus forward sales effective after 1/1/2003	Email/Fax - Standard Form TBD

**EXHIBIT F****DWR DATA REQUIREMENTS FROM UTILITY**

The following table outlines DWR data requirements relating to long-term contract schedule information and associated invoices:

<b>Schedule/Bilateral Invoice</b>				
<b>Requirement</b>	<b>Description</b>	<b>Freq</b>	<b>Effective</b>	<b>Delivery Method</b>
Final Schedule Volumes, Long Term Contracts	<p>For all long-term contracts allocated to the utilities and any surplus energy sales, the detailed hourly final schedule volumes and pricing information by contract by counterparty, by day.</p> <p>Final schedule volumes are defined as the final volume for the hour at the completion of the real-time market. These volumes represent the hour ahead scheduled volumes adjusted to include any real-time market adjustment. Utility would ensure this information is accurate and settlement quality.</p> <p>File should include, but is not limited to; Utility identifier, file type identifier (I.E. FINAL, HA), SC identifier, schedule type identifier (i.e. sale), delivery location, date, volume scheduled by hour, price per hour.</p>	T+1 (Daily)	1/2/2003	Secure Electronic – Format TBD
HA Final Schedule Volumes, Long Term Contracts	<p>For all long-term contracts allocated to the utilities and any surplus energy sales, the detailed hour ahead final schedule volumes and pricing information by contract, by counterparty, by day. Format and data elements of the file provided should identical to what was specified above in Final Schedule volumes.</p> <p>(Note: This can not be the ISO Hour Ahead Final Schedule template as this file does not provide transactional level details but consolidates/collapses information based on certain ISO rules.)</p>	T+1 (Daily)	1/2/2003	Secure Electronic – Format TBD
Reconciled Monthly bilateral invoices Schedule Volumes	Monthly invoice and supporting documentation for bilateral contracts relating to DWR long-term contracts, reviewed and approved by utility for payment by DWR to the counterparty.	Monthly – 5 business days prior to payment due date	Feb 2003	TBD

**EXHIBIT F****DWR DATA REQUIREMENTS FROM UTILITY**

In the event of a bilateral invoice dispute with the counterparty, DWR may also request from the utility the additional schedule information. This information would be in the same format as outlined in the table above. As mentioned above, DWR is requesting transactional level information and not the associated ISO template files due to the consolidation/collapsing of schedules with the template files. Schedule information required would include :

- Hour Ahead Preferred Schedule Volumes
- Day Ahead Final Schedule Volumes
- Day Ahead Adjusted Schedule Volumes
- Day Ahead Revised Preferred Schedule Volumes
- Day Ahead Preferred Schedule Volumes

The following table outlines DWR data requirements relating to the verification of fuel costs. It assumes DWR will retain legal and financial responsibility for gas and related services while the utility will perform administrative and operational responsibilities as outlined in Exhibit B.

<b>Fuel Costs</b>				
<b>Requirement</b>	<b>Description</b>	<b>Freq</b>	<b>Effective</b>	<b>Delivery Method</b>
Generator fuel plan proposal	Proposal and supporting analysis on whether or not to accept or reject of generator fuel plan.	Based on individual contracts	Jan-03	TBD
Utility Fuel Procurement Plan	Utility will provide a bi-annual fuel procurement plan for utility supplied fuel.	Bi-Annual	Jan-03	TBD
Reconciled Monthly Gas Invoice	Suppliers monthly invoice and supporting documentation for fuel procurement relating to DWR tolling agreements, reviewed and approved by Utility for payment by DWR to the supplier.	Monthly – 5-business days prior to payment due date	Feb-03	Electronic – Format TBD
Gas Transportation Contract Information	Details relating to the Utility negotiated firm and/or interruptible transportation agreements for DWR review and authorization.	When executed	All contracts effective after 1/1/2003	E-mail/Fax Standard Form TBD
Gas Storage Contract Information	Details relating to the Utility/negotiated firm and/or interruptible storage agreements for DWR review and authorization.	When executed	All contracts effective after 1/1/03	E-mail/Fax Standard Form TBD
Reconciled Monthly gas transportation invoices	Suppliers monthly invoice and supporting documentation for natural gas transportation costs relating to DWR tolling agreements, reviewed and approved by utility for payment by DWR to the supplier.	Monthly – 5-business days prior to payment due date	Feb-03	Electronic – Format TBD
Reconciled Monthly gas storage invoices	Supplier's monthly invoice and supporting documentation for storage relating to DWR tolling agreements, reviewed and approved by utility for payment by DWR to the supplier.	Monthly – 5-business days prior to payment due date	Feb-03	Electronic – Format TBD

**EXHIBIT F****DWR DATA REQUIREMENTS FROM UTILITY**

The following table outlines additional DWR data relating to utility revenue remittance:

<b>Utility Revenue Remittance</b>				
<b>Requirement</b>	<b>Description</b>	<b>Freq</b>	<b>Effective</b>	<b>Delivery Method</b>
Utility ISO Preliminary Settlement Statement and Supporting Files	The complete utility preliminary settlement statement and supporting files in original Utility template format. This information also required for remittance calculation purposes.	T + 38 business days	Ongoing	Secure Electronic-ISO Template Direct from ISO
Utility Final Settlement Statement and Supporting Files	The complete utility final settlement statement and supporting files in the Utility original template format. This information also required for remittance calculation purposes.	T + 45 business days	Ongoing	Secure Electronic-ISO Template Direct from ISO
Scheduled Retail Load by hour	Utilities scheduled or forecasted retail load information by hour.	T + 1	1/1/2003	TBD
Hourly aggregate final schedule of Utility's resource portfolios	Utilities total hourly scheduled volumes for the entire Utilities portfolio. This is an aggregate total for the day, by hour, and represents the total volume supplied by the utility.	T-1 (Daily)	1/2/2003	TBD
Hourly Distribution Loss Factor	Utility DLF % by hour	When changes required	1/1/2003	TBD
Estimated DWR remittance %	Utility estimated remittance percentage.	When changes required	1/1/2003	TBD
Energy Sales billed (kWh)	Daily kWh billed by Utility to end users	Daily	Ongoing	Standard DWR Form/File (TBD)
DWR Power Charge volumes	Daily kWh billed by Utility to end users	Daily	Ongoing	Standard DWR Form/File (TBD)
DWR Power Charge billed to Customer*	Daily dollar amount of DWR Power Charge being billed to customer including identification of dates billed.	Daily	Ongoing	Standard DWR Form/File (TBD)
DWR Power Charge Remitted to DWR*	Daily dollar amount being remitted by Utility to DWR for the DWR Power Charge collected from customers including identification of dates billed.	Daily	Ongoing	Standard DWR Form/File (TBD)

\*Note that this data is simply the supporting information that should be provided together with the daily remittance of customer revenues.

**EXHIBIT F****DWR DATA REQUIREMENTS FROM UTILITY**

As various Commission proceedings are finalized DWR will also require specific data related to Bond Charge remittances and to Direct Access exit fees. The specific nature and format of this data will be agreed with between the utilities and DWR.

The following table outlines DWR data requirements relating to resource information:

<b><i>Resource Information</i></b>				
<b>Requirement</b>	<b>Description</b>	<b>Freq</b>	<b>Effective</b>	<b>Delivery Method</b>
Load and Resource Assessment Studies	Copies of Utilities annual and quarter load and resource assessment studies as provided to the PUC.	Annually and quarterly	Jan-03	TBD
Update Description of Resources	Updated description of resources as set out in Exhibit A. Utilities will also provide timely updates on significant resource changes as outline in Exhibit A.	Annually or when significant changes	Jan 1, 04	TBD
Unit Commitment Studies	As provided to the PUC.	Weekly	Jan-03	TBD
DWR Resource Unavailability Form	Utility notification to DWR for resources within an allocated contracts becoming unavailable, or scheduled to become unavailable.	As outlined in operating agreement	1/1/2003	Standard DWR Form – Email/Fax

Upon the reasonable request of DWR, Utility will provide to DWR any information in respect of Utility that is applicable to the rights and obligations of the Parties under this Agreement or any material information that is reasonably necessary for DWR to monitor and manage their risks and perform their fiduciary responsibilities. Upon the reasonable request of Utility, DWR will provide to Utility any information in respect of DWR that is applicable to the rights and obligations of the Parties under this Order or any material information that is reasonably necessary for Utility to operationally administer Contracts under this Order.

For the information identified above, or any additional information identified through the term of this Order, standard submission formats will be used or be developed by DWR for use by each of the investor-owned utilities, including Utility. In the cases where the information requirements result in a large volume of data (e.g., schedule information), DWR will use or develop standard detailed file definitions for use by all of the investor-owned utilities, including Utility. Data will be submitted to DWR by Utility through a secure electronic communication medium, unless other medium is reasonably requested by DWR.

**EXHIBIT F**

**DWR DATA REQUIREMENTS FROM UTILITY**

As a result of the relative short implementation timeframes, it is anticipated an interim delivery protocol (e.g., comma delimited file via email, compact diskettes) will be utilized until the final data transmission media are in place. DWR shall work jointly with Utility to ensure the required data is available by January 1, 2003

In the event that DWR incurs additional costs, including but not limited to penalties, interest or other such costs, due to Utility's failure to timely provide data set forth in this Exhibit F, any such direct cost increase invoiced or assessed to DWR shall be borne by Utility.

The provisions of this Exhibit are subject to annual review by DWR and Utility to ensure that data reporting remains relevant and useful.

**(END OF EXHIBIT F)**